

COASTAL BEND COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012

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COASTAL BEND COLLEGE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012

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ORGANIZATIONAL DATA

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**COASTAL BEND COLLEGE
ORGANIZATIONAL DATA
FOR THE FISCAL YEAR 2012**

BOARD OF TRUSTEES

| | | Term Expires <u>May 31</u> |
|--------------------------|---------------|-------------------------------|
| Mr. Paul A. Jaure | Chairman | 2014 |
| Mr. Carroll Wayne Lohse | Vice-Chairman | 2018 |
| Mrs. Louise W. Hall | Secretary | 2014 |
| Mr. Douglas L. Arnold | Member | 2014 |
| Mrs. Emilia H. Dominguez | Member | 2016 |
| Mrs. Laura Fischer | Member | 2018 |
| Mr. Victor Gomez | Member | 2016 |

PRINCIPAL ADMINISTRATIVE OFFICERS

| | |
|-------------------------|---------------------------------|
| Dr. Beatriz T. Espinoza | President |
| Ms. Ruth Cude | Dean of Administrative Services |
| Ms. Velma Elizalde | Dean of Student Services |
| Ms. Glynis Strause | Dean of Institutional Services |
| Dr. Bruce Exstrom | Dean of Instructional Services |
| Ms. Lisa Garza | Controller |

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FINANCIAL SECTION



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308 tele 361-884-8897
Corpus Christi, TX 78401 fax 361-884-3457

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Independent Auditor's Report

Board of Trustees
Coastal Bend College
Beeville, Texas 78102

Members of the Board of Trustees:

We have audited the accompanying statements of net assets of Coastal Bend College (College) as of August 31, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coastal Bend College, as of August 31, 2012 and 2011, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2012 on our consideration of Coastal Bend College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Coastal Bend College's basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the basic financial statements of the College. The supplemental schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

Lovvorn & Kieschnick, LLP
December 5, 2012

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Management's Discussion and Analysis

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Coastal Bend College

Management's Discussion and Analysis

Fiscal Year Ended August 31, 2012

UNAUDITED

Overview of Discussion and Analysis

Coastal Bend College is pleased to present its financial statements for 2012 which are in conformance with Governmental Accounting Standards Board (GASB) standards. There are three financial statements presented: (a) the Statement of Net Assets, (b) the Statement of Revenues, Expenses, and Changes in Net Assets, and (c) the Statement of Cash Flows. These financial statements are intended to provide both long-term and short-term financial information on the College as a whole and should be read in conjunction with the Notes to the Financial Statements. Specifically,

The Statement of Net Assets is equivalent to a balance sheet for a for-profit entity. It is a snapshot of the financial status of the college on a specific date.

The Statement of Revenues, Expenses, and Changes in Net Assets is equivalent to an income statement for a for-profit entity, showing the results of operations of the college for the last fiscal year.

The Statement of Cash Flows attempts to show the change in cash and cash equivalents over the course of the last fiscal year.

The Notes to the Financial Statements describe some of the accounting policies and assumptions used by the college in preparing the other basic statements and as such serve as an integral part of the basic financial statements.

The following discussion and analysis provides an overview of the College's financial activities for the years ending August 31, 2012, 2011, and 2010.

Financial Highlights

Discussion of the Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector organizations. Net assets—the difference between assets and liabilities—are one way to measure the financial health of the College. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. From the data presented, readers of the Statement of Net Assets are able to determine the resources that are available to continue the operations of the College. Readers are also able to determine the amounts the College owes vendors, bondholders and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the institution.

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Coastal Bend College

Management's Discussion and Analysis

Fiscal Year Ended August 31, 2012

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The College's financial position as a whole changed during the year ending August 31, 2012, when compared to the snapshot from August 31, 2011.

Overall, current assets, which include cash and cash equivalents, short-term investments, accounts receivable, inventories and prepaid expenses, decreased by \$2,261,206. This decrease was due to the use of cash to decrease current liabilities and fund unplanned expenses. Current assets are assets that can be accessed to operate the College. Noncurrent assets, which include restricted cash and cash equivalents, endowment investments, other long-term investments, deferred charges, and capital assets, decreased by \$867,913. This decrease was due to the utilization of cash received for an energy savings project.

At the same time, current liabilities, which include accounts payable, funds held for others, deferred revenues, and bonds payable (current portion), decreased by \$701,670. This decrease is due to the pay down of accounts payable and to a decrease in deferred revenues. Deferred revenues occur when payment is received before services are performed.

Non-current liabilities, which include accrued compensable absences and bonds payable, decreased over the August 31, 2011 snapshot by \$343,974. The decrease in bonds payable is due to the annual payment for the college's Revenue Bond and Maintenance Tax Obligation Note to fund the Energy Savings Project. Accrued compensable absences increased slightly as several employees with seniority can retire at the end of FY2013, thus increasing the liability for future payment to those individuals.

Below is a condensed version of the institution's assets and liabilities:

| | 2012 | 2011 | 2010 |
|------------------------------|------------|------------|------------|
| Total Current Assets | 8,517,340 | 10,778,546 | 9,533,564 |
| Total Noncurrent Assets | 16,147,120 | 17,014,933 | 14,294,068 |
| Total Assets | 24,664,360 | 27,793,479 | 23,827,632 |
| | | | |
| Total Current Liabilities | 8,606,063 | 9,307,773 | 7,196,879 |
| Total Noncurrent Liabilities | 5,583,081 | 5,927,055 | 3,439,546 |
| Total Liabilities | 14,189,144 | 15,234,828 | 10,636,425 |
| | | | |
| Total Net Assets | 10,475,216 | 12,558,691 | 13,191,207 |

Thus, the total net assets as of August 31, 2012 indicate a decrease of \$2,083,475 as compared to the institution's net assets as of August 31, 2011. Of this amount, the major decrease is due to a decrease in net assets in unrestricted funds. The overall change resulted from a combination of

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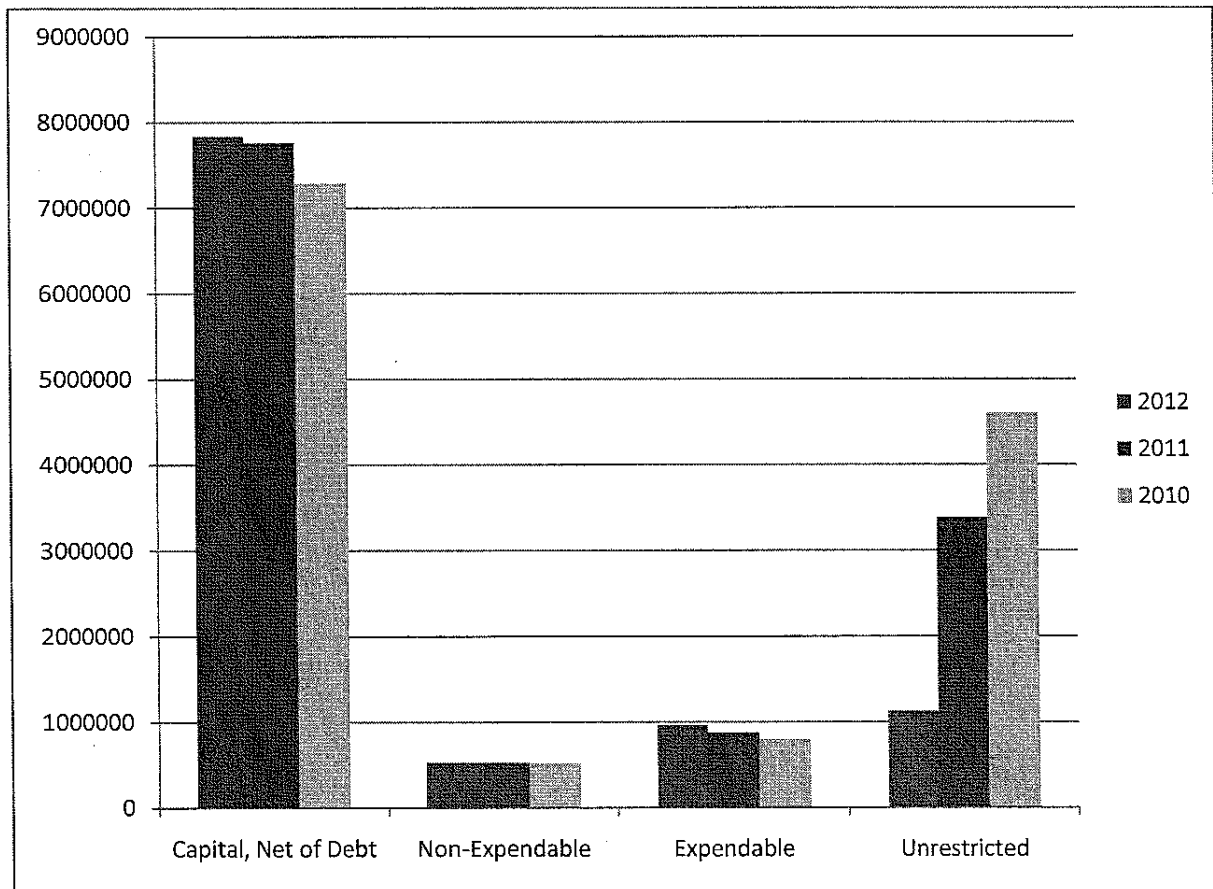
Coastal Bend College

Management's Discussion and Analysis

Fiscal Year Ended August 31, 2012

UNAUDITED

changes in investments in capital assets, net of related debt, debt service, and a decrease in unrestricted assets as demonstrated in the chart below:



Discussion of the Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present the operating results of the College as well as the non-operating revenues and expenses. For the purpose of this statement, the category Operating Revenues includes tuition and fees (net of discounts), governmental grants not related to Title IV and non-governmental grants, sales and services of educational activities, auxiliary enterprises (net of discounts) and general operating revenues. The category of non-operating revenues includes state allocations, maintenance ad valorem taxes, gifts, investment income, interest on capital related debt, and grants for Title IV and other non-operating revenues. Please note that state allocations and ad valorem taxes, while budgeted

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Coastal Bend College

Management's Discussion and Analysis

Fiscal Year Ended August 31, 2012

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for operations, are considered non-operating revenue according to generally accepted accounting principles.

A chart of the Summary of Revenues, Expenses and Changes in Net Assets follows:

| | 2012 | 2011 | 2010 |
|-----------------------------------|--------------|--------------|--------------|
| Operating Revenues | 12,669,758 | 11,488,321 | 9,114,226 |
| Operating Expenses | (31,083,166) | (29,665,929) | (32,430,955) |
| Operating Loss | (18,413,408) | (18,177,608) | (23,316,729) |
| Non-operating Revenues | 16,329,933 | 18,868,932 | 23,521,326 |
| Increase (Decrease) in Net Assets | (2,083,475) | 691,324 | 204,597 |

Revenue

The chart below reflects operating revenues for all sources, before discounting. The five primary sources of operating revenue for the institution continue to be: a) gifts, grants and contracts; (b) state allocations; (c) tuition and fees, (d) ad valorem taxes; and (e) auxiliary enterprises. A chart of the major components of revenue (operating and non-operating combined) follows:

| Major Revenue Components | 2012 | 2011 | 2010 |
|---------------------------------------|------------|------------|------------|
| Tuition and Fees (Gross) | 8,886,522 | 9,971,936 | 9,378,979 |
| State Allocations | 8,089,939 | 8,206,289 | 9,128,309 |
| Ad Valorem Taxes | 1,767,948 | 1,812,993 | 1,914,136 |
| Gifts, Grants, and Contracts | | | |
| Federal | 10,066,429 | 11,429,983 | 14,132,974 |
| State | 478,715 | 940,044 | 898,920 |
| Local | 0 | 750 | 9,081 |
| Private (Operating and Non-Operating) | 8,000 | 279,316 | 226,592 |
| Total Gifts, Grants, and Contracts | 10,553,144 | 12,650,093 | 15,267,567 |
| Auxiliary Enterprises | 3,588,821 | 2,784,027 | 3,956,249 |

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Coastal Bend College

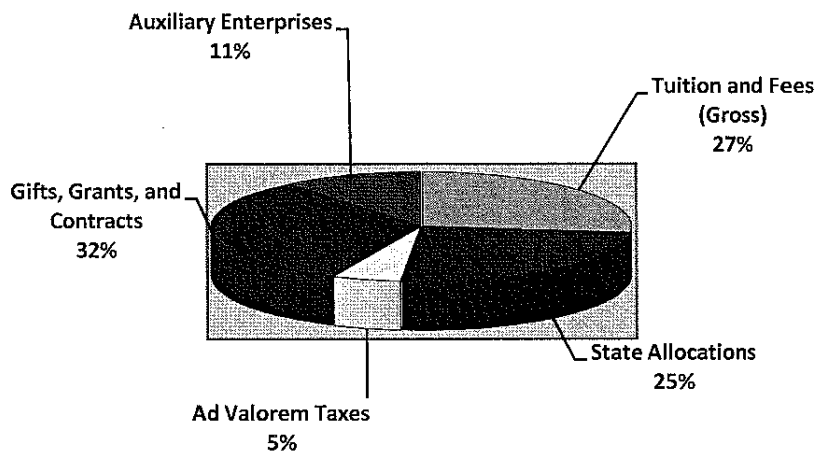
Management's Discussion and Analysis

Fiscal Year Ended August 31, 2012

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The following chart helps to visualize the major revenue components as they contribute to the total revenue sources of the College:

Major Components of Revenue



For the fiscal year ending August 31, 2012, gross tuition and fee revenue was approximately \$8,886,522 or \$1,085,414 lower than in fiscal year 2011. Factors contributing to the 2012 decrease relate to a decrease in enrollment. Growth is at a lower rate than the growth between fiscal year 2009 and 2010. The college is located in an area of economic growth due to the oil and gas production in the area. Steady employment at a good wage rate has caused the enrollment to decline. The college has been able to develop and offer some oil and gas related classes and is committed to exploring ways to increase enrollment. All tuition and fees for registrations for Fall 2013 are shown in fiscal year 2013, not in fiscal year 2012.

Ad Valorem tax revenue for fiscal year 2012 decreased from the prior year by approximately \$45,045. This reflects the fact that the College held the tax rate steady from fiscal year 2011.

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Operating Expenses by Functional Classification

Functional classifications, representing programs and services provided, are the traditional categories that have been used to show expenses.

The chart below shows the 2012 expenses compared to the 2011 and 2010 expenses.

| Functional Classifications | 2012 | 2011 | 2010 |
|------------------------------------|------------|------------|------------|
| Instruction | 9,727,655 | 10,873,263 | 10,085,119 |
| Public Service | 22,275 | 29,529 | 20,660 |
| Academic Support | 1,286,939 | 1,408,188 | 1,548,109 |
| Student Services | 3,715,009 | 3,271,765 | 3,063,074 |
| Institutional Support | 5,467,911 | 5,070,999 | 4,641,443 |
| Operation and Maintenance of Plant | 3,399,799 | 2,812,970 | 3,118,147 |
| Scholarships and Fellowships | 4,091,022 | 3,586,039 | 5,235,197 |
| Auxiliary Enterprises | 2,326,004 | 1,806,073 | 3,985,528 |
| Depreciation | 1,046,552 | 807,103 | 733,678 |
| Total Operating Expenses | 31,083,166 | 29,665,929 | 32,430,955 |

As the chart below visually demonstrates, differences existed in functional totals between 2012, 2011, and 2010. The majority of the College operating expenses continue to be dedicated to instruction and instructional support. In 2012, the majority of the operating expenses were dedicated to instruction and institutional support with scholarships and fellowships being close behind institutional support.

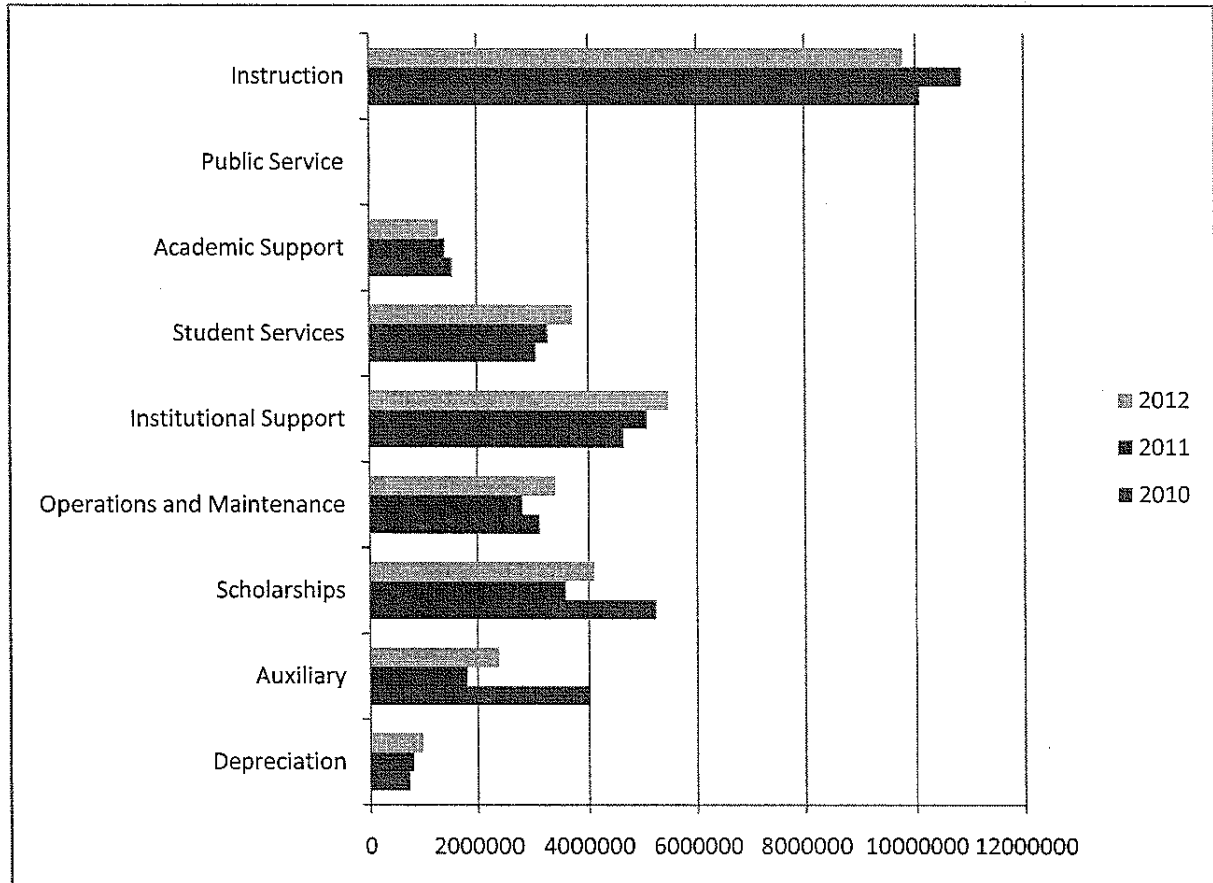
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The increase in operating expenses between fiscal year 2012 and fiscal year 2011 was \$1,417,237. Increases in expenses resulted from increases in insurance premiums, while budgeting at the level prior to the increase resulting in under-budgeted employee benefit matching, and payment to Texas Book Company for student book purchases. At the end of FY12 the College instituted a program review process that aligns with the budget planning process so that all college programs and services stay within budget and budget is in sync with projected revenues.

Discussion of the Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement presents cash flows from four sources: (a) operating activities, (b) non-capital financing activities, (c) capital financing activities, and (d) investing activities.

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Coastal Bend College

Management's Discussion and Analysis

Fiscal Year Ended August 31, 2012

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A summary of the Statement of Cash Flows follows:

| | 2012 | 2011 | 2010 |
|--|--------------|--------------|--------------|
| Operating Activities | (16,758,029) | (18,155,253) | (20,270,883) |
| Noncapital Financing Activities | 16,436,030 | 19,037,001 | 20,668,260 |
| Capital and Related Financing Activities | (2,863,802) | 1,108,562 | (1,196,710) |
| Investing Activities | 616,810 | (282,208) | 461,309 |
| | | | |
| Changes in Cash and Cash Equivalents | (2,568,991) | 1,708,102 | (338,024) |

The primary cash flows from operating activities include cash receipts from students and other customers (e.g., tuition, housing, board) and grant and contract revenue. Cash outlays include payments to suppliers (supplies), employees (wages, benefits), and students (scholarships).

State appropriations and ad valorem taxes were the primary sources of non-capital financing. Accounting standards require that we reflect this source of revenue as non-operating even though these resources are classified as operating revenues in the College budget. Cash flows from Capital Financing Activities include payments of capital assets, and the principal and interest on capital debt.

Economic Factors that Will Affect the Future

South Texas and Coastal Bend College's service area continues to experience an economic boom from the Eagle Ford Shale Play. This prosperity has also led to high wage employment for entry-level workers. With job options in the area CBC is experiencing a decrease in student enrollments. With the life cycle of the EFS play estimated between 10-20 years, CBC is aggressively pursuing programs that support the oil and gas and related industry sectors. While traditional enrollments are down, the continuing education arm at CBC has shown significant increases serving over 3,500 students amounting to 148,892 contact hours. CBC is better positioned to provide multiple training options to a diverse workforce.

Dual credit enrollment continues to grow at CBC. A director has been named and a management process established for CBC to work closely with area high schools to continue that growth. Marketable skills certificate options are better defined to support student achievement in workforce areas and the traditional college core curriculum is being offered with options of in-class, online, and video.

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Coastal Bend College

Management's Discussion and Analysis

Fiscal Year Ended August 31, 2012

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CBC is reviewing its processes to increase institutional effectiveness and efficiencies. This includes all program and service areas to better define the total cost of ownership (TCO) and return on investment (ROI) for each program and service area. An annual planning calendar is in place to ensure that CBC gets the best rates in insurance, energy, and other high cost services. CBC is also in the process of updating the College's Strategic Plan to address areas of need as well as establish a plan through 2020.

CBC is preparing for the 83rd Legislative Session to begin January 2013. The Texas Higher Education Coordinating Board has issued a newly recommended formula for funding community colleges. CBC is working toward the alignment of revenue based on the proposed formula funding model. Of concern is the uncertainty of the new biennium as to what adjustments we will need to make based on legislative changes, but we will follow it closely and align our budget development process as needed.

Financial information can be obtained from the Coastal Bend College business office via written request to 3800 Charco Road, Beeville, Texas 78102.

Beatriz T. Espinoza, Ph.D.
President

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Basic Financial Statements

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Coastal Bend College

Exhibit 1

Statements of Net Assets

August 31, 2012 and August 31, 2011

| ASSETS | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 355,154 | \$ 811,800 |
| Short term investments (See Note 4) | 4,203 | 1,943,215 |
| Accounts receivable (net) | 5,404,305 | 5,215,596 |
| Inventories | 335,495 | 274,217 |
| Prepaid expenses | 2,418,183 | 2,533,718 |
| Total Current Assets | <u>8,517,340</u> | <u>10,778,546</u> |
| Noncurrent Assets: | | |
| Restricted cash and cash equivalents | 108,024 | 2,220,369 |
| Endowment Investments | 631,591 | 631,591 |
| Other long-term investments | 1,994,311 | 1,920,875 |
| Deferred charges | 105,715 | 114,704 |
| Capital assets (net) (See Note 5) | 13,307,379 | 12,127,394 |
| Total Noncurrent Assets | <u>16,147,020</u> | <u>17,014,933</u> |
| Total Assets | <u>24,664,360</u> | <u>27,793,479</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | 767,755 | 1,330,018 |
| Funds held for others | 351,360 | 315,796 |
| Deferred revenues | 7,066,968 | 7,274,003 |
| Leases payable - current portion | 66,980 | 79,916 |
| Notes payable - current portion | 138,000 | 103,000 |
| Bonds payable - current portion | 215,000 | 205,000 |
| Total Current Liabilities | <u>8,606,063</u> | <u>9,307,733</u> |
| Noncurrent Liabilities: | | |
| Accrued compensable absences | 462,693 | 386,687 |
| Leases payable | 146,388 | 213,368 |
| Notes payable | 2,344,000 | 2,482,000 |
| Bonds payable (See Note 6) | 2,630,000 | 2,845,000 |
| Total Noncurrent Liabilities | <u>5,583,081</u> | <u>5,927,055</u> |
| Total Liabilities | <u>14,189,144</u> | <u>15,234,788</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 7,767,011 | 7,762,250 |
| Restricted for: | | |
| Non-Expendable | | |
| Endowments | 531,670 | 531,670 |
| Expendable | | |
| Scholarships | 402,646 | 402,646 |
| Debt service | 559,795 | 477,353 |
| Unrestricted | 1,214,094 | 3,384,772 |
| Total Net Assets (Schedule D) | <u>\$ 10,475,216</u> | <u>\$ 12,558,691</u> |

The accompanying notes are an integral part of the financial statements.

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Coastal Bend College

Exhibit 2

**Statements of Revenues, Expenses and Changes in Net Assets
Years Ended August 31, 2012 And August 31, 2011**

| Operating Revenues | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Tuition and Fees (net of discounts of \$4,149,282 and \$5,250,021 respectively) | \$ 4,737,240 | \$ 4,721,915 |
| Federal Grants and Contracts | 3,662,876 | 2,571,348 |
| State Grants and Contracts | 478,715 | 940,044 |
| Local Grants and Contracts | - | 750 |
| Non-Governmental Grants and Contracts | 8,000 | 279,316 |
| Sales and Services of Educational Activities | 36,829 | 144,732 |
| Auxiliary Enterprises (net of discounts) | 3,588,821 | 2,784,027 |
| General Operating Revenues | <u>157,277</u> | <u>46,189</u> |
| Total Operating Revenues (Schedule A) | <u>12,669,758</u> | <u>11,488,321</u> |
| Operating Expenses | | |
| Instruction | 9,727,655 | 10,873,263 |
| Public Service | 22,275 | 29,529 |
| Academic Support | 1,286,939 | 1,408,188 |
| Student Services | 3,715,009 | 3,271,765 |
| Institutional Support | 5,467,911 | 5,070,999 |
| Operation and Maintenance of Plant | 3,399,799 | 2,812,970 |
| Scholarships and Fellowships | 4,091,022 | 3,586,039 |
| Auxiliary Enterprises | 2,326,004 | 1,806,073 |
| Depreciation | <u>1,046,552</u> | <u>807,103</u> |
| Total Operating Expenses (Schedule B) | <u>31,083,166</u> | <u>29,665,929</u> |
| Operating Loss | (18,413,408) | (18,177,608) |
| Non-Operating Revenues (Expenses) | | |
| State Appropriations | 8,089,939 | 8,206,289 |
| Maintenance Ad Valorem Taxes | 1,767,948 | 1,812,993 |
| Federal Revenue, Non-Operating | 6,403,553 | 8,858,635 |
| Gifts | 128,547 | 480 |
| Investment income | 128,242 | 148,560 |
| Interest on Capital Related Debt | (216,580) | (161,291) |
| Other Non-Operating Revenues | 37,859 | 40,483 |
| Other Non-Operating Expenses | <u>(9,575)</u> | <u>(37,217)</u> |
| Net Non-Operating Revenues (Schedule C) | <u>16,329,933</u> | <u>18,868,932</u> |
| Increase (Decrease) in Net Assets | (2,083,475) | 691,324 |
| Net Assets | | |
| Net Assets - Beginning of Year | <u>12,558,691</u> | <u>11,867,367</u> |
| Net Assets - End of Year | <u>\$ 10,475,216</u> | <u>\$ 12,558,691</u> |

The accompanying notes are an integral part of the financial statements.

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Coastal Bend College

EXHIBIT 3

Statements of Cash Flows
Years Ended August 31, 2012 and August 31, 2011.

| | <u>2012</u> | <u>2011</u> |
|--|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from students and other customers | 8,948,356 | 6,049,746 |
| Receipts from grants and contracts | 4,066,851 | 9,617,062 |
| Payments to suppliers for goods and services | (9,662,125) | (12,877,074) |
| Payments to or on behalf of employees | (16,177,366) | (17,497,231) |
| Payments for scholarships and fellowships | (4,091,022) | (3,493,945) |
| Other receipts | 157,277 | 46,189 |
| Net cash used by operating activities | (16,758,029) | (18,155,253) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Receipts from state appropriations | 8,089,939 | 8,420,590 |
| Receipts from ad valorem taxes | 1,767,948 | 1,806,233 |
| Receipts from Non Operating Federal Revenue | 6,403,553 | 8,858,635 |
| Gifts | 128,547 | - |
| Payments for collection of taxes | (17,814) | (48,457) |
| Receipts from student organizations and other agency transactions | 44,430 | - |
| Payments to student organizations and other agency transactions | (8,857) | - |
| Other receipts | 37,859 | - |
| Other payments | (9,575) | - |
| Net cash provided by noncapital financing activities | 16,436,030 | 19,037,001 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | |
| Proceeds on issuance of capital debt | - | 2,878,284 |
| Purchases of capital assets | (2,226,538) | (1,442,552) |
| Payments on capital debt - principal | (387,916) | (200,000) |
| Payments on capital debt - interest | (249,348) | (127,150) |
| Net cash used by capital and related financing activities | (2,863,802) | 1,108,582 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | 562,004 | 480,297 |
| Interest on investments | 128,242 | 2,500 |
| Purchase of investments | (73,436) | (765,005) |
| Net cash provided by investing activities | 616,810 | (282,206) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,568,991) | 1,708,122 |
| CASH AND CASH EQUIVALENTS—September 1 | 3,032,169 | 1,324,047 |
| CASH AND CASH EQUIVALENTS—August 31 | \$ 463,178 | \$ 3,032,169 |
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH | | |
| PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating loss | \$ (18,413,408) | \$ (18,177,608) |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: | | |
| Depreciation expense | 1,046,552 | 807,103 |
| Payments made directly by state for benefits | 1,401,038 | 1,851,759 |
| Changes in assets and liabilities: | | |
| Receivables (net) | (188,709) | (1,316,253) |
| Inventories | (61,278) | (154,272) |
| Prepaid expenses | 115,535 | (68,810) |
| Accounts payable | (562,303) | (630,827) |
| Funds Held for Others | 35,573 | - |
| Compensated absences | 76,006 | (2,859) |
| Deferred revenue | (207,035) | (463,486) |
| Net cash used by operating activities | \$ (16,758,029) | \$ (18,155,253) |

The accompanying notes are an integral part of the financial statements.

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Notes to the Basic Financial Statements

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**COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011**

1. Reporting Entity

Coastal Bend College (the College) was established in 1965, in accordance with the laws of the state of Texas, to serve the educational needs of Bee County and the surrounding communities. The College is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14 *The Financial Reporting Entity*. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

Component Unit

The Coastal Bend College Foundation (the Foundation) is a nonprofit organization with the purpose of supporting the educational and other activities of the College. The Foundation solicits donations and acts as coordinator of gifts made by other parties. Under Governmental Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Foundation is considered a blended component unit of the College, as the Foundation is fiscally dependent on the College and provides services exclusively, or almost exclusively, for the benefit of the College. The financial statements of the Foundation are not material to the financial statements of the College and have not been included in the basic financial statements.

Complete financial statements for the Foundation may be obtained at the Foundation Executive Director, Coastal Bend College, 3800 Charco Rd., Beeville, Texas 78102.

2. Summary of Significant Accounting Policies

Report Guidelines

The significant accounting policies followed by the College in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College applies all applicable GASB pronouncements and all applicable Financial Accounting Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The College has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The College is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code §56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act Program Funds

Certain Title IV HEA Program funds are received by the college to pass through to the student. These funds are initially received by the college and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

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**COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011**

Other tuition discounts

The college awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Basis of Accounting

The financial statements of the College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Budgetary Data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1st.

Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of MBIA Government Pool, Logic and TexPool to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

Inventories consist of bookstore stock and are valued at cost under the "first-in, first-out" method and are charged to expense as consumed.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense incurred.

The College reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following lives are used:

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**COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011**

| | |
|--|-------------|
| Buildings and Improvements | 20-50 years |
| Furniture, Machinery, Vehicles and Other Equipment | 10 years |
| Telecommunications and Peripheral Equipment | 5 years |
| Library Books | 15 years |

Deferred Revenues

Tuition and fees of \$7,066,968 and \$7,274,003 have been reported as deferred revenues at August 31, 2012 and 2011, respectively.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations, Federal Pell grants, all Title IV student financial aid grants, and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

3. Authorized Investments

The College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

4. Deposits and Investments

Cash and Deposits included on Exhibit 1, Statement of Net Assets, consist of the items reported below:

| | Cash and Deposits | |
|---------------------------|--------------------------|------------------|
| | <u>2012</u> | <u>2011</u> |
| Bank Deposits | | |
| Demand Deposits | 462,163 | 3,031,154 |
| Cash and Cash Equivalents | | |
| Petty Cash on Hand | <u>1,015</u> | <u>1,015</u> |
| Total Cash and Deposits | <u>463,178</u> | <u>3,032,169</u> |

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

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During the year ended August 31, 2012, deposits were entirely covered by FDIC insurance or by pledged collateral held by the College's agent bank in the College's name.

Reconciliation of Deposits and Investments to Exhibit 1

| Type of Security | Market Value August 31, 2012 | Market Value August 31, 2011 |
|---------------------------------------|---------------------------------|---------------------------------|
| Investments | | |
| U.S. Agencies | 116,576 | 1,082,509 |
| Fixed Annuities | 2,509,326 | 2,397,413 |
| Money Market Fund | - | 52,386 |
| Investment Pools | 4,203 | 963,373 |
| Total Investments | 2,630,105 | 4,495,681 |
| Total Cash and Deposits | 463,178 | 3,032,169 |
| Total Deposits and Investments | 3,093,283 | 7,527,850 |
| | | |
| Cash and Cash Equivalents | 355,154 | 811,800 |
| Short Term Investments | 4,203 | 1,943,215 |
| Restricted Cash and Cash Equivalents | 108,024 | 2,220,369 |
| Endowment Investments | 631,591 | 631,591 |
| Other Long-term Investments | 1,994,311 | 1,920,875 |
| Total Deposits and Investments | 3,093,283 | 7,527,850 |

As of August 31, 2012, the College had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities (in Years) | | |
|---------------------------|------------------|----------------------------------|----------|----------------|
| | | Less than 1 | 1 to 3 | 4 to 5 |
| U.S. Agencies | 116,576 | - | - | 116,576 |
| Fixed Annuities | 2,509,326 | 2,509,326 | - | - |
| Investment Pools: | | | | |
| Investment in TexPool | 1,129 | 1,129 | - | - |
| Investment in Texas Class | 2,172 | 2,172 | - | - |
| Investment in LOGIC Pool | 902 | 902 | - | - |
| Total Fair Value | 2,630,105 | 2,513,529 | - | 116,576 |

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**COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011**

Interest Rate Risk

In accordance with state law and College policy, the College does not purchase any investments with maturities greater than 10 years.

Credit Risk

In accordance with state law and the College's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at **least A-1 or P-1**, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A. The College's investments in investment pools were rated AAA. The College's investments in New Era Life Insurance Company Guaranteed Investment Contracts, Liberty Bankers Life Insurance Company Guaranteed Investment Contracts and Philadelphia American Life Insurance Company Guaranteed Investment Contracts were secured by FDIC and NCUSIF. The College's investments in FHLB were rated A2. The College's investment in Sentinel Short Maturity Governmental Fund was rated AAA.

Concentration of Credit Risk

The College does not place a limit on the amount the College may invest in any one issuer. More than 5% of the College's investments are in Liberty Bankers Life Insurance Company Guaranteed Investment Contracts (25.66%), New Era Life Insurance Company Guaranteed Investment Contracts (63.4%), and Philadelphia American (6.35%).

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a custodial credit risk.

The local government investment pools such as TexPool, Texas Class and Logic Pool are not evidenced by securities in physical form. They are managed conservatively to provide safe, efficient and liquid investments to Texas governmental entities. The pools both seek to maintain a \$1 value per share as required by the Texas Public Funds Investment Act.

Federated Investors manages the assets, provides participant services, and arranges for all custody and other functions in support of TexPool operations under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool, including the ability to influence operations, designation of management and accountability for fiscal matters. Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB 31 allows 2a7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than market value to report net assets to compute share price. The fair value of the College's position in TexPool is the same as the value of TexPool shares.

Logic Pool is co-administered by JPMorgan Chase and First Southwest Asset Management, Inc. The fair value of funds in Logic Pool is also the same as the value of Logic Pool shares.

Texas Class is administered by Cutwater Investor Services Corporation. The fair value of the funds in Texas Class is also the same fair value as Texas Class shares.

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COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

5. Capital Assets

Capital assets activity for the year ended August 31, 2012 was as follows:

| | Balance August 31, 2011 | Increases | Decreases | Balance August 31, 2012 |
|--|-------------------------------|--------------------|--------------------|-------------------------------|
| <u>Not Depreciated</u> | | | | |
| Land | 476,889 | - | - | 476,889 |
| Construction in Progress | 1,021,860 | - | (1,021,860) | - |
| Subtotal | <u>1,498,749</u> | <u>-</u> | <u>(1,021,860)</u> | <u>476,889</u> |
| <u>Other Capital Assets</u> | | | | |
| Buildings and Improvements | 18,128,280 | 2,730,495 | - | 20,858,775 |
| Furniture, Machinery, Vehicles and Other Equipment | 3,028,336 | 265,276 | - | 3,293,612 |
| Telecommunications and Peripheral Equipment | 3,046,909 | 234,917 | - | 3,281,826 |
| Library Books | 1,282,374 | 17,709 | - | 1,300,083 |
| Subtotal | <u>25,485,899</u> | <u>3,248,397</u> | <u>-</u> | <u>28,734,296</u> |
| <u>Accumulated Depreciation</u> | | | | |
| Buildings and Improvements | (10,221,538) | (494,396) | - | (10,715,934) |
| Furniture, Machinery, Vehicles, and Other Equipment | (1,491,291) | (226,615) | - | (1,717,906) |
| Telecommunications and Peripheral Equipment | (2,149,594) | (279,924) | - | (2,429,518) |
| Library Books | (994,831) | (45,617) | - | (1,040,448) |
| Subtotal | <u>(14,857,254)</u> | <u>(1,046,552)</u> | <u>-</u> | <u>(15,903,806)</u> |
| Net Other Capital Assets | <u>10,628,645</u> | <u>2,201,845</u> | <u>-</u> | <u>12,830,490</u> |
| Net Capital Assets | <u>12,127,394</u> | <u>2,201,845</u> | <u>(1,021,860)</u> | <u>13,307,379</u> |

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

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Capital assets activity for the year ended August 31, 2011 was as follows:

| | Balance August 31, 2010 | Increases | Decreases | Balance August 31, 2011 |
|--|-------------------------------|-----------|-----------|-------------------------------|
| <u>Not Depreciated</u> | | | | |
| Land | 476,889 | - | - | 476,889 |
| Construction in Progress | - | 1,021,860 | - | 1,021,860 |
| Subtotal | 476,889 | 1,021,860 | - | 1,498,749 |
| <u>Other Capital Assets</u> | | | | |
| Buildings and Improvements | 18,128,280 | - | - | 18,128,280 |
| Furniture, Machinery, Vehicles and Other Equipment | 2,130,942 | 897,394 | - | 3,028,336 |
| Telecommunications and Peripheral Equipment | 2,580,821 | 466,088 | - | 3,046,909 |
| Library Books | 1,269,374 | 13,000 | - | 1,282,374 |
| Subtotal | 24,109,417 | 1,376,482 | - | 25,485,899 |
| <u>Accumulated Depreciation</u> | | | | |
| Buildings and Improvements | (9,846,977) | (374,561) | - | (10,221,538) |
| Furniture, Machinery, Vehicles, and Other Equipment | (1,328,445) | (162,846) | - | (1,491,291) |
| Telecommunications and Peripheral Equipment | (1,927,513) | (222,081) | - | (2,149,594) |
| Library Books | (947,216) | (47,615) | - | (994,831) |
| Subtotal | (14,050,151) | (807,103) | - | (14,857,254) |
| Net Other Capital Assets | 10,059,266 | 569,379 | - | 10,628,645 |
| Net Capital Assets | 10,536,155 | 1,591,239 | - | 12,127,394 |

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

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6. Long-term Liabilities

Long-term liability activity for the year ended August 31, 2012 was as follows:

| | Balance August 31, 2011 | Additions | Reductions | Balance August 31, 2012 | Current Portion |
|---------------------------------|-------------------------------|----------------|----------------|-------------------------------|--------------------|
| <u>Bonds, Leases, and Notes</u> | | | | | |
| Revenue Bonds | 3,050,000 | - | 205,000 | 2,845,000 | 215,000 |
| Maintenance Tax Notes | 2,585,000 | - | 103,000 | 2,482,000 | 138,000 |
| Capital Leases | 293,284 | - | 79,916 | 213,368 | 66,980 |
| Total | 5,928,284 | - | 387,916 | 5,540,368 | 419,980 |
| <u>Other Liabilities</u> | | | | | |
| Compensated Absences | 386,687 | 207,586 | 131,580 | 462,693 | - |
| Total Long-Term Liabilities | <u>6,314,971</u> | <u>207,586</u> | <u>519,496</u> | <u>6,003,061</u> | <u>419,980</u> |

Long-term liability activity for the year ended August 31, 2011 was as follows:

| | Balance August 31, 2010 | Additions | Reductions | Balance August 31, 2011 | Current Portion |
|---------------------------------|-------------------------------|------------------|----------------|-------------------------------|--------------------|
| <u>Bonds, Leases, and Notes</u> | | | | | |
| Revenue Bonds | 3,250,000 | - | 200,000 | 3,050,000 | 205,000 |
| Maintenance Tax Notes | - | 2,585,000 | - | 2,585,000 | 103,000 |
| Capital Leases | - | 293,284 | - | 293,284 | 79,916 |
| Total | 3,250,000 | 2,878,284 | 200,000 | 5,928,284 | 387,916 |
| <u>Other Liabilities</u> | | | | | |
| Compensated Absences | 389,546 | 142,945 | 145,804 | 386,687 | - |
| Total Long-Term Liabilities | <u>3,639,546</u> | <u>3,021,229</u> | <u>345,804</u> | <u>6,314,971</u> | <u>387,916</u> |

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COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

7. Debt Obligations

Debt service requirements at August 31, 2012 for bonds and notes were as follows:

| For The Year Ended August 31 | Maintenance Tax Notes | | | Revenue Bonds | | |
|---------------------------------|-----------------------|----------|-----------|---------------|----------|-----------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2013 | 138,000 | 93,820 | 231,820 | 215,000 | 112,975 | 327,975 |
| 2014 | 143,000 | 88,603 | 231,603 | 220,000 | 105,450 | 325,450 |
| 2015 | 148,000 | 83,198 | 231,198 | 230,000 | 97,310 | 327,310 |
| 2016 | 154,000 | 77,603 | 231,603 | 240,000 | 88,800 | 328,800 |
| 2017 | 160,000 | 71,782 | 231,782 | 245,000 | 79,440 | 324,440 |
| 2018-2022 | 894,000 | 263,542 | 1,157,542 | 1,385,000 | 242,240 | 1,627,240 |
| 2023-2026 | 845,000 | 81,308 | 926,308 | 310,000 | 13,175 | 323,175 |
| Totals | 2,482,000 | 759,856 | 3,241,856 | 2,845,000 | 739,390 | 3,584,390 |

Defeased bonds outstanding:

The College did not have any defeased bonds outstanding at August 31, 2012.

Capital Leases

During 2011, the College entered into a lease agreement for the purchase of computer lab equipment at a cost of \$293,284. The scheduled maturity date of the final lease payment is in September, 2015. The lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. Future minimum lease payments to be paid are as follows:

| Year Ending August 31 | |
|--|----------|
| 2013 | 79,916 |
| 2014 | 79,916 |
| 2015 | 79,916 |
| Total | 239,748 |
| Less Amount Representing Interest (Rate 6.0631%) | (26,380) |
| Present Value of Future Minimum Lease Payments | 213,368 |

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

8. Bonds Payable

General information related to bonds payable is summarized below:

- Bond Issue Name: Coastal Bend College Combined Fee Revenue Bonds, Series 2003
- Purpose of Bond Issue: To improve, construct, acquire, enlarge, equip and maintain certain property, buildings and facilities.
- Issue Date: August 12, 2003
- Original Amount of Issue; Amount Authorized: \$4,505,000.
- Interest Rates: 2.00% to 3.90%
- Source of Revenue for Debt Service: Pledged registration fees, out of district fees, student service fees and course fees.

9. Employees' Retirement Plan

The State of Texas has joint contributory retirement plans for almost all its employees.

Teacher Retirement System of Texas

Plan Description. Coastal Bend College contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan. TRS issues a publicly available financial report with required supplementary information which can be obtained from www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal years 2012, 2011 and 2010 and a state contribution rate of 6.4 percent for fiscal year 2012; 6.644 percent for fiscal year 2011; and 6.644 percent for fiscal year 2010. In certain instances the reporting district is required to make all or a portion of the state's 6.4 percent for fiscal year 2012; 6.644 percent for fiscal year 2011; and 6.644 percent for fiscal year 2010.

Contingent Liability.

For fiscal year 2012, and for the first time, the State of Texas is limiting the amount of funding the community colleges receive for the employer portion of the retirement contributions for eligible employees. TRS has asked that community college districts make up the difference. The Texas Association of Community Colleges (TACC) and many of the districts contend the amount owed is the state's liability and not a liability of the districts. Management of Coastal Bend Community College does not believe it is legally responsible for the payment and has chosen not to report a liability for the difference in its financial statements. The estimated contingent liability is \$341,664.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

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Optional Retirement Plan

Plan Description. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.4% and 6.65%, respectively. The college contributes 2.1% for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The retirement expense to the state for the college was \$594,294 and \$641,991 for the fiscal years ended August 31, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the college.

The total payroll for all college employees was \$13,818,631 and \$14,168,977 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$9,220,876 and \$9,065,597, and the total payroll of employees covered by the Optional Retirement Program was \$3,232,916 and \$3,297,238 for fiscal years 2012 and 2011, respectively.

10. Deferred Compensation Program

College employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants.

11. Compensated Absences

Full-time employees earn annual leave of 10 days per year. The College's policy is that an employee may carry his accrued leave forward from one fiscal year to another fiscal year with a maximum carryover of 20 days. Employees with at least three months of service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The College recognized an accrued liability of \$400,043 and \$255,928 for the unpaid annual leave for 2012 and 2011. Sick leave, which can be accumulated to a maximum of 90 days, is earned at the rate of one day per month. It is paid to an employee who misses work because of illness. Employees with at least 10 years of service who terminate their employment are entitled to payment for all accumulated sick leave up to the maximum allowed. Annual sick leave of \$62,650 was recognized for 2012 and \$130,759 for 2011.

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

12. Operating Lease Commitments and Rental Agreement

Included in current expenses is \$261,824 for rent paid or due under operating leases.

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2012 are as follows:

| <u>Year Ended</u> | <u>Minimum Future Lease Payments</u> |
|-------------------|--|
| 2013 | <u>281,945</u> |

13. Funds Held in Trust by Others

The balances or transactions of funds, held in trust by others on behalf of Coastal Bend College are not reflected in the financial statements. At August 31, 2012 and 2011 there was one fund for the benefit of the College. The assets of this fund are administered by an appointed plan administrator.

14. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, Audits of Colleges and Universities. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expensed, but not collected are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expensed, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards already committed, e.g. multi-year awards, or funds awarded during fiscal years 2012 and 2011 for which monies have not been received nor funds expended totaled \$0 and \$217,800. These amounts were entirely from Federal Contract and Grant Awards for the fiscal years ended 2012 and 2011, respectively.

15. Post Retirement Health and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for these benefits if they reach normal retirement age while working for the State. These and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State's contribution per full-time employee was \$438.30 per month for the year ended August 31, 2012 (\$413.26 per month for 2011) and totaled \$1,602,224 for 2012 (\$1,531,500 for the year ended 2011). The cost of providing those benefits for 107 retirees in the year ended 2012 was \$611,824 (retiree benefits for 104 retirees cost \$576,443 in 2011). For 264 active employees, the cost of providing benefits was \$1,325,259 for the year ended 2012 (active employee benefits for 275 employees cost \$716,170 for the year ended 2011).

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**COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011**

16. Property Tax

The College's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

At August 31,

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Assessed Valuation of the District: | 1,984,037,000 | 2,001,739,340 |
| Less: Exemptions | 876,589,670 | 879,475,481 |
| Less: Abatements | 15,725,170 | 9,712,050 |
| Net Assessed Valuation of the District | <u>1,091,722,160</u> | <u>1,112,551,809</u> |

2012

| | <u>Current Operations</u> | <u>Debt Service</u> | <u>Total</u> |
|---|-------------------------------|-------------------------|--------------|
| Tax Rate per \$100 valuation authorized (Maximum per enabling legislation) | 0.50 | 0.50 | 1.00 |
| Tax Rate per \$100 valuation of assessed | 0.16800 | - | 0.16800 |

2011

| | <u>Current Operations</u> | <u>Debt Service</u> | <u>Total</u> |
|---|-------------------------------|-------------------------|--------------|
| Tax Rate per \$100 valuation authorized (Maximum per enabling legislation) | 0.50 | 0.50 | 1.00 |
| Tax Rate per \$100 valuation of assessed | 0.16800 | - | 0.16800 |

Taxes levied for the years ended August 31, 2012 and 2011 amounted to \$1,763,199 and \$1,816,393, respectively (which includes any penalty and interest assessed if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

2012

| <u>Taxes Collected</u> | <u>Operations</u> | <u>Debt Service</u> | <u>Total</u> |
|----------------------------------|-------------------|---------------------|------------------|
| Current Taxes Collected | 1,681,153 | - | 1,681,153 |
| Delinquent Taxes Collected | 54,144 | - | 54,144 |
| Penalties and Interest Collected | 32,651 | - | 32,651 |
| Total Collections | <u>1,767,948</u> | <u>-</u> | <u>1,767,948</u> |

2011

| <u>Taxes Collected</u> | <u>Operations</u> | <u>Debt Service</u> | <u>Total</u> |
|----------------------------------|-------------------|---------------------|------------------|
| Current Taxes Collected | 1,732,255 | - | 1,732,255 |
| Delinquent Taxes Collected | 45,708 | - | 45,708 |
| Penalties and Interest Collected | 31,140 | - | 31,140 |
| Total Collections | <u>1,809,103</u> | <u>-</u> | <u>1,809,103</u> |

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

Tax collections for the years ended August 31, 2012 and 2011 were 100.00% and 99.60% respectively of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

17. Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subjected to income taxes under Internal Revenue Code Section 511 (a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the years ended August 31, 2012 and 2011.

18. Commitments and Contingencies

1. Contingencies

The College participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the College has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the College, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Pending Lawsuits and Claims

On August 31, 2012, various lawsuits and claims involving Coastal Bend College were pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

19. Disaggregation of Receivables and Payables Balances

Receivables

Receivables at August 31, 2012 and 2011, were as follows:

| | 2012 | 2011 |
|---------------------------------|------------------|------------------|
| Student Receivables | 2,167,349 | 1,605,440 |
| Taxes Receivable | 132,602 | 83,581 |
| Tuition Sponsor Receivable | 231,937 | 333,120 |
| Contract and Grant Receivable | 2,867,989 | 3,138,488 |
| Interest Receivable | 16,576 | 25,017 |
| Other Receivables | 90,627 | 132,726 |
| Subtotal | 5,507,080 | 5,318,372 |
| Allowance for Doubtful Accounts | (102,776) | (102,776) |
| TOTAL RECEIVABLES | 5,404,304 | 5,215,596 |

COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011

Payables

Payables at August 31, 2012 and 2011 were as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------------|-----------------------|-------------------------|
| Vendors Payable | 697,405 | 1,056,534 |
| Interest Payable | 17,849 | 39,438 |
| Other Payable | <u>52,501</u> | <u>234,046</u> |
| TOTAL PAYABLES | <u><u>767,755</u></u> | <u><u>1,330,018</u></u> |

20. Risk Management

The College is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the College purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

21. Postemployment Benefits Other than Pensions

(In accordance with GASB Statement 45)

Plan Description. Coastal Bend College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

Funding Policy. Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS board of trustees. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB statement 45.

The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The College's contributions to SRHP for the years ended August 31, 2012, 2011, and 2010, were \$59,324, \$95,706, and \$47,752, respectively, which equaled the required contributions each year.

**COASTAL BEND COLLEGE
Notes to Financial Statements
August 31, 2012 and 2011**

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22. Restatement of Net Assets

During the year ended August 31, 2012, management determined that deferred revenues for Pell grants for fiscal years prior to 2011 were understated.

Beginning Net Assets for fiscal year August 31, 2011 have been restated as follows:

| | <u>Net Assets</u> |
|--|-----------------------------|
| YEAR ENDED AUGUST 31, 2011: | |
| Beginning Net Assets, as originally reported | \$ 13,191,207 |
| Restatement for deferred revenues | <u>(1,323,840)</u> |
| Beginning Net Assets, as restated | <u>\$ 11,867,367</u> |

23. Prior Period Adjustment

Subsequent to the issuance of the financial statements for the year ended August 31, 2011, management became aware that State Appropriations revenue for "Professional Nursing Shortage Reduction" was overstated by \$214,301. This adjustment is reported in the accompanying 2011 financial statements and had the effect of reducing non-operating "State Appropriations" by \$214,301 and increasing accounts payable by \$214,301.

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OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

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Schedules

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Coastal Bend College

Schedule A

Schedule of Operating Revenues

Year Ended August 31, 2012 (With Memorandum Totals for the Year Ended August 31, 2011)

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total Educational Activities</u> | <u>Auxiliary Enterprises</u> | <u>2012 Total</u> | <u>2011 Total</u> |
|--|---------------------|---------------------|---|----------------------------------|-----------------------|-----------------------|
| Tuition: | | | | | | |
| State funded credit courses: | | | | | | |
| In-district resident tuition | 1,470,263 | - | 1,470,263 | - | 1,470,263 | 1,690,391 |
| Out-of-district resident tuition | 2,443,604 | - | 2,443,604 | - | 2,443,604 | 2,914,890 |
| Non-resident tuition | 13,343 | - | 13,343 | - | 13,343 | 14,675 |
| TPEG - credit (set aside) * | 200,000 | - | 200,000 | - | 200,000 | 200,000 |
| State-funded continuing education | 198,162 | - | 198,162 | - | 198,162 | - |
| TPEG - non-credit (set aside) * | - | - | - | - | - | - |
| Non-state funded educational programs | - | - | - | - | - | 106,984 |
| Total Tuition | <u>4,325,372</u> | <u>-</u> | <u>4,325,372</u> | <u>-</u> | <u>4,325,372</u> | <u>4,926,940</u> |
| Fees: | | | | | | |
| Out of district fee | 2,718,252 | - | 2,718,252 | - | 2,718,252 | 3,202,403 |
| Distance learning fee | 262,057 | - | 262,057 | - | 262,057 | 250,150 |
| Installment Plan Fees | - | - | - | 10,515 | 10,515 | 13,560 |
| Dual credit fees | 339,558 | - | 339,558 | - | 339,558 | 310,753 |
| Individual course fees | 832,452 | - | 832,452 | - | 832,452 | 911,860 |
| Registration fee | 398,316 | - | 398,316 | - | 398,316 | 356,270 |
| Total Fees | <u>4,550,635</u> | <u>-</u> | <u>4,550,635</u> | <u>10,515</u> | <u>4,561,150</u> | <u>5,044,996</u> |
| Scholarship allowances and discounts: | | | | | | |
| Remissions and exemptions - state | (131,217) | - | (131,217) | - | (131,217) | (198,612) |
| Remissions and exemptions - local | - | - | - | - | - | - |
| Title IV federal grants | (3,559,489) | - | (3,559,489) | - | (3,559,489) | (4,621,323) |
| Other federal grants | (48,088) | - | (48,088) | - | (48,088) | (60,613) |
| TPEG awards | (180,689) | - | (180,689) | - | (180,689) | (140,966) |
| Other state grants | (229,799) | - | (229,799) | - | (229,799) | (228,507) |
| Rising Star program | - | - | - | - | - | - |
| Other local grants | - | - | - | - | - | - |
| Total Scholarship Allowances | <u>(4,149,282)</u> | <u>-</u> | <u>(4,149,282)</u> | <u>-</u> | <u>(4,149,282)</u> | <u>(5,250,021)</u> |
| Total net tuition and fees | <u>4,726,725</u> | <u>-</u> | <u>4,726,725</u> | <u>10,515</u> | <u>4,737,240</u> | <u>4,721,915</u> |
| Additional operating revenues: | | | | | | |
| Federal grants and contracts | - | 3,662,876 | 3,662,876 | - | 3,662,876 | 2,571,348 |
| State grants and contracts | - | 478,715 | 478,715 | - | 478,715 | 940,044 |
| Local grants and contracts | - | - | - | - | - | 750 |
| Non-governmental grants and contracts | - | 8,000 | 8,000 | - | 8,000 | 279,316 |
| Sales and services of educational activities | 36,829 | - | 36,829 | - | 36,829 | 144,732 |
| General operating revenues | 157,277 | - | 157,277 | - | 157,277 | 46,189 |
| Total additional operating revenues | <u>194,106</u> | <u>4,149,591</u> | <u>4,343,697</u> | <u>-</u> | <u>4,343,697</u> | <u>3,982,379</u> |
| Auxiliary Enterprises: | | | | | | |
| Bookstore | - | - | - | 3,078,866 | 3,078,866 | 2,294,637 |
| Less Discounts | - | - | - | (162,146) | (162,146) | (117,603) |
| Housing | - | - | - | 605,643 | 605,643 | 584,861 |
| Less Discounts | - | - | - | (108,941) | (108,941) | (118,731) |
| Child Care Center | - | - | - | 166,635 | 166,635 | 140,863 |
| Student Programs | - | - | - | 8,764 | 8,764 | - |
| Total net auxiliary enterprises | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,588,821</u> | <u>3,588,821</u> | <u>2,784,027</u> |
| Total Operating Revenues | <u>\$ 4,920,831</u> | <u>\$ 4,149,591</u> | <u>\$ 9,070,422</u> | <u>\$ 3,599,336</u> | <u>\$ 12,669,758</u> | <u>\$ 11,488,321</u> |
| | | | | (Exhibit 2) | (Exhibit 2) | |

* In accordance with Education Code 56.033, \$200,000 for years August 31, FY12 and FY11, of tuition was set aside for Texas Public Education grants (TPEG)

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Coastal Bend College

Schedule B

Schedule of Operating Expenses by Object

Year Ended August 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

| | Operating Expenses | | | | 2012 Total | 2011 Total |
|---|-----------------------|---------------------|-------------------|----------------------|----------------------|----------------------|
| | Salaries and Wages | Benefits | | Other Expenses | | |
| | | State | Local | | | |
| Unrestricted - Educational Activities | | | | | | |
| Instruction | \$ 7,817,524 | | \$ 139,113 | \$ 517,352 | \$ 8,473,989 | \$ 8,574,810 |
| Public Service | | | | 22,275 | 22,275 | 29,529 |
| Academic Support | 548,266 | | 8,982 | 351,923 | 909,171 | 754,097 |
| Student Services | 551,594 | | 32,145 | 220,168 | 803,907 | 858,434 |
| Institutional Support | 2,143,466 | | 54,235 | 2,985,160 | 5,182,861 | 4,576,538 |
| Operation and Maintenance of Plant | 743,698 | | 202,627 | 1,555,165 | 2,501,490 | 2,812,970 |
| Scholarships and Fellowships | | | | 202,662 | 202,662 | 92,094 |
| Total Unrestricted Educational Activities | 11,804,548 | - | 437,102 | 5,854,705 | 18,096,355 | 17,698,472 |
| Restricted - Educational Activities | | | | | | |
| Instruction | \$ 72,587 | \$ 927,832 | \$ 42,781 | \$ 210,466 | \$ 1,253,666 | \$ 2,298,453 |
| Public Service | | | | | - | - |
| Academic Support | 183,184 | 65,072 | 39,591 | 89,921 | 377,768 | 654,091 |
| Student Services | 1,530,628 | 65,466 | 264,543 | 1,050,465 | 2,911,102 | 2,413,331 |
| Institutional Support | | 254,400 | | 30,650 | 285,050 | 494,461 |
| Operation and Maintenance of Plant | | 88,267 | | 810,042 | 898,309 | - |
| Scholarships and Fellowships | | | | 3,888,360 | 3,888,360 | 3,493,945 |
| Total Restricted Educational Activities | 1,786,399 | 1,401,037 | 346,915 | 6,079,904 | 9,614,255 | 9,354,281 |
| Total Educational Activities | 13,590,947 | 1,401,037 | 784,017 | 11,934,609 | 27,710,610 | 27,052,753 |
| Auxiliary Enterprises | 227,685 | | 52,073 | 2,046,246 | 2,326,004 | 1,806,073 |
| Depreciation Expense - Buildings and other real estate improvements | | | | 494,396 | 494,396 | 374,561 |
| Depreciation Expense - Equipment and furniture | | | | 552,156 | 552,156 | 432,542 |
| Total Operating Expenses | \$ 13,818,632 | \$ 1,401,037 | \$ 836,090 | \$ 15,027,407 | \$ 31,083,166 | \$ 29,665,929 |
| | | | | | (Exhibit 2) | (Exhibit 2) |

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Coastal Bend College

Schedule C

Schedule of Non-Operating Revenues and Expenses

Year Ended August 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Auxiliary Enterprises</u> | <u>2012 Total</u> | <u>2011 Total</u> |
|---|---------------------|---------------------|----------------------------------|-----------------------|-----------------------|
| NON-OPERATING REVENUES: | | | | | |
| State Appropriations | \$ 6,688,901 | - | - | \$ 6,688,901 | \$ 6,345,330 |
| State Group Insurance | | 821,214 | | 821,214 | 1,209,767 |
| State Retirement Matching | | 579,824 | | 579,824 | 641,992 |
| Professional Nursing Shortage Reduction | | | | | 9,200 |
| Total State Appropriations | <u>6,688,901</u> | <u>1,401,038</u> | <u>-</u> | <u>8,089,939</u> | <u>8,206,289</u> |
| Maintenance ad valorem taxes | 1,767,948 | - | - | 1,767,948 | 1,812,993 |
| Federal Non-Operating | | 6,403,553 | | 6,403,553 | 8,858,635 |
| Gifts | 128,547 | - | - | 128,547 | 480 |
| Investment income | 128,242 | - | | 128,242 | 148,560 |
| Gain on sale of investment | | - | | - | |
| Contributions in aid of construction | | - | - | - | |
| Other non-operating revenue | <u>37,859</u> | <u>-</u> | <u>-</u> | <u>37,859</u> | <u>40,483</u> |
| Total non-operating revenues | 8,751,497 | 7,804,591 | - | 16,556,088 | 19,067,440 |
| NON-OPERATING EXPENSES: | | | | | |
| Interest on capital related debt | 216,580 | - | - | 216,580 | 161,291 |
| Loss on disposal of capital assets | | - | | - | - |
| Other non-operating expense | <u>9,575</u> | <u>-</u> | <u>-</u> | <u>9,575</u> | <u>37,217</u> |
| Total non-operating expenses | 226,155 | - | - | 226,155 | 198,508 |
| Net non-operating revenues | <u>\$ 8,525,342</u> | <u>\$ 7,804,591</u> | <u>\$ -</u> | <u>\$ 16,329,933</u> | <u>\$ 18,868,932</u> |
| | | | | (Exhibit 2) | (Exhibit 2) |

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Coastal Bend College

Schedule D

Schedule Of Net Assets by Source and Availability

Year Ended August 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

| | Detail by Source | | | | | Available for Current Operations | |
|--|-----------------------|-------------------|-------------------|---|-----------------------|----------------------------------|---------------------|
| | Unrestricted | Restricted | | Capital Assets Net of Depreciation & Related Debt | Total | Yes | No |
| | | Expendable | Non-Expendable | | | | |
| Current: | | | | | | | |
| Unrestricted | \$ 1,214,094 | | | | \$ 1,214,094 | \$ 1,214,094 | |
| Board Designated | | | | | - | - | |
| Restricted | | 402,646 | | | 402,646 | 402,646 | |
| Auxiliary enterprises | | | | | - | - | |
| Loan | | | | | - | - | |
| Endowment: | | | | | | | |
| Quasi: | | | | | | | |
| Unrestricted | | | | | - | - | |
| Restricted | | | 531,670 | | 531,670 | | 531,670 |
| Endowment | | | | | - | - | |
| True | | | | | - | - | |
| Term (per instructions at maturity) | | | | | - | - | |
| Life Income Contracts | | | | | - | - | |
| Annuities | | | | | - | - | |
| Plant: | | | | | | | |
| Unexpended | | | | | - | - | |
| Renewals | | | | | - | - | |
| Debt Service | | 559,795 | | | 559,795 | | 559,795 |
| Investment in Plant | | | | 7,767,011 | 7,767,011 | | 7,767,011 |
| Total Net Assets, August 31, 2012 | \$ 1,214,094 | \$ 962,441 | \$ 531,670 | \$ 7,767,011 | \$ 10,475,216 | \$ 1,616,740 | \$ 8,858,476 |
| | (Exhibit 1) | | | | | | |
| Total Net Assets, August 31, 2011 | 3,384,772 | 879,999 | 531,670 | 7,762,250 | 12,558,691 | 3,787,418 | 8,771,273 |
| | (Exhibit 1) | | | | | | |
| Net Increase (Decrease) in Net Assets | \$ (2,170,678) | \$ 82,442 | \$ - | \$ 4,761 | \$ (2,083,475) | \$ (2,170,678) | \$ 87,203 |
| | (Exhibit 2) | | | | | | |

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COASTAL BEND COLLEGE
Schedule E
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012

| <u>Federal Grantor/Pass Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Expenditures and Pass Through Disbursements</u> |
|--|------------------------------------|--|--|
| U.S. Department of Education | | | |
| Direct Programs: | | | |
| Student Financial Aid Cluster | | | |
| SEOG | 84.007 | | \$ 92,045 |
| Federal College Workstudy Program | 84.033 | | 100,670 |
| Federal Pell Grant | 84.063 | | 6,210,837 |
| Direct Loans | 84.288 | | 3,483,605 |
| Title V | 84.031S | | 244,892 |
| Title IV - STEM | 84.031C | | 456,899 |
| TRIO Cluster | | | |
| TRIO Student Support Services | 84.042 | | 260,636 |
| TRIO Upward Bound | 84.047 | | 363,034 |
| TRIO Educational Talent Search | 84.044 | | 520,099 |
| TRIO Upward Bound GOST | 84.047M | | 248,460 |
| Pass-Through From: | | | |
| Beeville ISD | | | |
| 21st Century | 84.287 | | 121,831 |
| Del Mar College | | | |
| Title V Celebrando Educacion | 84.031S | | 212,212 |
| Federal Correctional Institution | | | |
| Prison Program | 16.000 | | 291,544 |
| Texas Education Agency | | | |
| Adult Basic Education | 84.002 | | 167,280 |
| Texas Higher Education Coordinating Board | | | |
| Carl Perkins Vocational Education - Basic | 84.048 | | 279,994 |
| Lumina Foundation | | | |
| Developmental Education Initiative | 17.207 | | 249,087 |
| Total Department of Education | | | <u>13,303,125</u> |
| Department of Health and Human Services | | | |
| TANF | 93.558 | | 29,837 |
| HRSA | 93.527 | | 217,072 |
| Total U.S. Department of Health and Human Services | | | <u>246,909</u> |
| Total Federal Financial Assistance | | | <u>\$ 13,550,034</u> |

Notes to Schedule on Following Page.

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SCHEDULE E (Continued)

Note 1: Federal Assistance Reconciliation

| | | |
|---|----|-------------------|
| Federal Grants and Contracts revenue - per Schedule A | \$ | 3,662,876 |
| Add: Non-Operating Revenue from Schedule C | | 6,403,553 |
| Add: Direct Student Loans | | 3,483,605 |
| Total Federal Revenues per Schedule of Expenditures of Federal Awards | \$ | <u>13,550,034</u> |

Note 2: Significant accounting policies used in preparing the schedule.

The expenditures included in the schedule are reported for the college's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the college for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The college has followed all applicable guidelines issued by various entities in the preparation of the schedule.

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COASTAL BEND COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2012

SCHEDULE F

| <u>Grantor Agency/Program Title</u> | <u>Grant Contract Number</u> | <u>Expenditures</u> |
|---|--------------------------------------|---------------------------------|
| Pass-Thru from Beeville ISD | | |
| Afterschool Centers on Education | | \$ 1,200 |
| Texas Department of Human Services | | |
| State Adult Education | 88010044-1 | 37,457 |
| State Adult Education Jobs Program | 88010044-1 | <u>13,082</u> |
| | SUB-TOTAL | 50,539 |
| Texas Higher Education Coordinating Board | | |
| Texas Education Opportunity Grant | PCA13399 | 408,166 |
| Texas College Work Study | 9920050M | <u>18,810</u> |
| Total State Financial Assistance | | \$ <u><u>478,715</u></u> |

Notes to Schedule on Following Page.

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SCHEDULE F (Continued)

Note 1: State Assistance Reconciliation

| | |
|---|--------------------------|
| State Revenues - per Schedule A | |
| State Financial Assistance | |
| Per Schedule of expenditures of state awards | \$ 478,715 |
| State Financial Assistance | |
| Continuing Education tuition and fees included in Schedule A captioned "Tuition and Fees" | <u>0</u> |
| Total State Revenues per Schedule A | \$ <u>478,715</u> |

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The accompanying schedule is presented using the accrual basis of accounting. See Note 2 to the financial statements for the Coastal Bend College's significant accounting policies. These expenditures are reported on Coastal Bend College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

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Single Audit Section



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

418 Peoples Street, Suite 308 tele 361-884-8897
Corpus Christi, TX 78401 fax 361-884-3457

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Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Coastal Bend College
Beeville, Texas 78102

Members of the Board of Trustees:

We have audited the basic financial statements of Coastal Bend College (the College) as of and for the years ended August 31, 2012 and 2011, and have issued our report thereon dated December 5, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Coastal Bend College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Coastal Bend College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Coastal Bend College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Coastal Bend College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or

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material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Coastal Bend College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Lovvorn & Kieschnick, LLP
December 5, 2012



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Report on Compliance with Requirements that
Could Have a Direct and Material Effect on
Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

Board of Trustees
Coastal Bend College
Beeville, Texas 78102

Members of the Board of Trustees:

Compliance

We have audited the compliance of Coastal Bend College (the College) with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended August 31, 2012. The College's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Coastal Bend College's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Coastal Bend College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2012.

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Internal Control Over Compliance

The management of Coastal Bend College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Coastal Bend College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Coastal Bend College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lovvorn & Kieschnick, LLP
December 5, 2012

COASTAL BEND COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

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A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| | Student Financial Assistance Programs Cluster: |
| | Federal Supplemental Education Opportunity Grant Program |
| | Federal Work Study Program |
| | Federal Pell Grant Program |
| | Federal Direct Loan Program |
| 84.007 | Title IV - STEM |
| 84.033 | Title V |
| 84.063 | Title V - Celebrando Educacion |
| 84.268 | Carl Perkins Vocational |
| 84.031C | |
| 84.031S | |
| 84.031S | |
| 84.048 | |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

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COASTAL BEND COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2012

B. Financial Statement Findings

NONE

C. Federal/State Award Findings and Questioned Costs

NONE

COASTAL BEND COLLEGE
SCHEDULE OF CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

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Corrective Action Plan

N/A No corrective action required

COASTAL BEND COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2012

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| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation If Not Implemented</u> |
|-------------------------------|-----------------------|--|
| N/A - No Prior Findings | | |